

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

***Southwest Michigan Library Cooperative***  
**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITORS' REPORT**  
*Year ended September 30, 2005*

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## INDEPENDENT AUDITORS' REPORT

**Board of Directors  
Southwest Michigan Library Cooperative**

We have audited the accompanying financial statements of the governmental activities and the major fund of Southwest Michigan Library Cooperative as of and for the year ended September 30, 2005, which collectively comprise the Cooperative's basic financial statements as listed in the contents. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Southwest Michigan Library Cooperative as of September 30, 2005, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The budgetary comparison information, on page 11, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Southwest Michigan Library Cooperative has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

*Siegfried Crandall P.C.*

November 18, 2005

## **BASIC FINANCIAL STATEMENTS**

**Southwest Michigan Library Cooperative**

**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET**

September 30, 2005

	<u>Operating Fund</u>	<u>Adjustments</u>	<u>Statement of net assets</u>
<b>ASSETS</b>			
Cash	\$ 182,234	\$ -	\$ 182,234
Due from other governmental units	23,225	-	23,225
Inventory	425	-	425
Capital assets (net)	<u>-</u>	<u>202,434</u>	<u>202,434</u>
Total assets	<u>\$ 205,884</u>	<u>202,434</u>	<u>408,318</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 8,801	-	8,801
Accrued liabilities	3,186	-	3,186
Deferred revenue	40,925	-	40,925
Long-term liabilities:			
Due within one year	-	16,183	16,183
Due after one year	<u>-</u>	<u>39,121</u>	<u>39,121</u>
Total liabilities	<u>52,912</u>	<u>55,304</u>	<u>108,216</u>
<b>FUND BALANCE/NET ASSETS</b>			
Fund balance - unreserved, undesignated	<u>152,972</u>	<u>(152,972)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 205,884</u>		
Net assets:			
Investment in capital assets, net of related debt		162,557	162,557
Unrestricted		<u>137,545</u>	<u>137,545</u>
Total net assets		<u>\$ 300,102</u>	<u>\$ 300,102</u>
Operating Fund - fund balance			\$ 152,972
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:			
Capital assets are not financial resources and, therefore, are not reported in the fund.			202,434
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund.			<u>(55,304)</u>
Net assets of <i>governmental activities</i>			<u>\$ 300,102</u>

See notes to financial statements

**Southwest Michigan Library Cooperative**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE**  
*Year ended September 30, 2005*

	<u>Operating Fund</u>	<u>Adjustments</u>	<u>Statement of activities</u>
<b>EXPENDITURES/EXPENSES</b>			
Recreation and culture	\$ 538,604	\$ 22,467	\$ 561,071
Capital outlay	5,956	(5,956)	-
Debt service:			
Principal	15,658	(15,658)	-
Interest	1,734	-	1,734
	<u>561,952</u>	<u>853</u>	<u>562,805</u>
Total expenditures/expenses			
<b>PROGRAM REVENUES</b>			
Operating contributions	143,312	-	143,312
Charges for services	104,616	-	104,616
	<u>247,928</u>	<u>-</u>	<u>247,928</u>
Total program revenues			
<b>NET PROGRAM EXPENSES</b>	<u>(314,024)</u>	<u>(853)</u>	<u>(314,877)</u>
<b>GENERAL REVENUES</b>			
State aid	265,725	-	265,725
Interest	1,457	-	1,457
	<u>267,182</u>	<u>-</u>	<u>267,182</u>
Total general revenues			
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES/ CHANGES IN NET ASSETS</b>	(46,842)	(853)	(47,695)
<b>FUND BALANCE/NET ASSETS - BEGINNING</b>	<u>199,814</u>	<u>147,983</u>	<u>347,797</u>
<b>FUND BALANCE/NET ASSETS - ENDING</b>	<u>\$ 152,972</u>	<u>\$ 147,130</u>	<u>\$ 300,102</u>

See notes to financial statements

**Southwest Michigan Library Cooperative**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE**  
*Year ended September 30, 2005*

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Net change in fund balance (page 5) \$ (46,842)

Amounts reported in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$20,377) exceeded capital outlays (\$5,956) in the current period. (14,421)

Debt proceeds provide current financial resources to governmental funds, but increases long-term liabilities in the statement of net assets. Repayment of installment principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments. 15,658

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (2,090)

Change in net assets \$ (47,695)

*See notes to financial statements*



**Southwest Michigan Library Cooperative**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Southwest Michigan Library Cooperative (the Cooperative) conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies:

*a) Reporting entity:*

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Cooperative. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Cooperative has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Cooperative's financial statements.

The Cooperative was established under the authority and provision of Michigan Public Act 89 to provide library services to its member libraries. The Cooperative derives its principal operating revenues from state grants and public library members that pass a portion of their state grants to the Cooperative.

*b) Basis of accounting:*

The statement of net assets and the statement of activities are reported using the economic resources, measurement focus, and the accrual basis of accounting. Revenue is recorded when earned and expenses when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all the eligibility requirements imposed by provider have been met.

The operating fund statements are reported using current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available if collected in the current period or within 60 days of the end of the current fiscal year end. Expenditures are generally recognized when the related liability is incurred.

*c) Assets and liabilities:*

- i) Bank deposits* - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.
- ii) Receivables* - All receivables are estimated to be fully collectible as presented. Currently all receivables are due within one year.
- iii) Inventory* - The inventory consists of items for sale to the member libraries and is carried at cost, which approximates market. The costs are recorded as expenditures when consumed rather than when purchased.

**Southwest Michigan Library Cooperative**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**c) Assets and liabilities (continued):**

- iv) *Capital assets* - Capital assets, which include land, buildings, equipment and furniture, and vehicles, are defined by the Cooperative as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	20 - 40 years
Equipment and furniture	5 - 10 years
Vehicles	10 years

- v) *Deferred revenues* - Deferred revenues represent member library assessments received in advance to be used for the next fiscal year and amounts not yet earned under contract.
- vi) *Accumulated compensated absences* - The Cooperative's policy permits employees to accumulate an unlimited amount of earned, but unused, vacation and sick leave. Upon separation, the employees are paid for all unused vacation pay. Upon retirement, the employees are paid for all unused vacation pay and up to 90 days of sick leave.

A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the Cooperative. Vested compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

**Budgetary information** - An annual budget is adopted on a basis consistent with generally accepted accounting principles for the Operating Fund. The legal level of budgetary control adopted by the governing body is the functional level. Amounts encumbered for purchase orders, contracts, etc., are tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

The following schedule sets forth significant budget variations:

<u>Function</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Recreation and culture - headquarters	\$ 209,241	\$ 269,052	\$ 59,811
Debt service - interest	-	1,734	1,734

**Southwest Michigan Library Cooperative**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 3 - CASH:**

Deposits are carried at cost and are maintained at various financial institutions in the name of the Cooperative. Michigan Compiled Laws, Section 129.91, authorizes the Cooperative to deposit and invest in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Cooperative's deposits are in accordance with statutory authority. At September 30, 2005, cash included deposits with a carrying amount of \$182,184 and a bank balance of \$188,343. Of the bank balance, \$168,052 is covered by federal depository insurance and \$20,291 is uninsured and uncollateralized.

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, the Cooperative will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As such, the Cooperative is exposed to \$20,291 of custodial credit risk.

The Cooperative believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Cooperative evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

**NOTE 4 - CAPITAL ASSETS:**

Capital asset activity of the Cooperative for the current year was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Capital assets:				
Buildings and improvements	\$ 153,767	\$ 3,595	\$ -	\$ 157,362
Furniture and equipment	74,202	2,361	-	76,563
Vehicles	84,480	-	-	84,480
Subtotal	<u>312,449</u>	<u>5,956</u>	<u>-</u>	<u>318,405</u>
Less accumulated depreciation for:				
Buildings and improvements	35,763	4,634	-	40,397
Furniture and equipment	38,804	7,295	-	46,099
Vehicles	21,027	8,448	-	29,475
Subtotal	<u>95,594</u>	<u>20,377</u>	<u>-</u>	<u>115,971</u>
Total capital assets, net	<u>\$ 216,855</u>	<u>\$ (14,421)</u>	<u>\$ -</u>	<u>\$ 202,434</u>

**Southwest Michigan Library Cooperative**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 5 - LONG-TERM LIABILITIES:**

Long-term liabilities, at September 30, 2005, consist of the following individual items:

Installment purchase agreements:

\$4,995 installment purchase agreement for financing the acquisition of a copier. Payable in monthly installments of \$121, including interest at a rate of 15.8%, through April 2007. \$ 2,021

\$27,869 installment purchase agreement for financing the acquisition of a van. Payable in monthly installments of \$464, with no interest, through February 2008. 13,006

\$27,865 installment purchase agreement for financing the acquisition of a van. Payable in monthly installments of \$464, with no interest, through February 2008. 13,003

\$16,117 installment purchase agreement for financing the acquisition of computer equipment. Payable in monthly installments of \$399, including interest at a rate of 9.6%, through July 2008. 11,847

Total installment purchase agreements 39,877

Accrued compensated absences 15,427

Total long-term liabilities \$ 55,304

Long-term liability activity for the year ended September 30, 2005, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Installment purchase agreements	\$ 55,535	\$ -	\$ 15,658	\$ 39,877	\$ 16,183
Compensated absences	<u>13,336</u>	<u>62,086</u>	<u>59,995</u>	<u>15,427</u>	<u>-</u>
Total long-term liabilities	<u>\$ 68,871</u>	<u>\$ 62,086</u>	<u>\$ 75,653</u>	<u>\$ 55,304</u>	<u>\$ 16,183</u>

**Southwest Michigan Library Cooperative**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 5 - LONG-TERM LIABILITIES (Continued):**

At September 30, 2005, debt service requirements, with the exception of the compensated absences, were as follows:

<u>Year ended</u> <u>September 30:</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 16,183	\$ 1,208
2007	16,154	633
2008	<u>7,540</u>	<u>171</u>
Totals	<u>\$ 39,877</u>	<u>\$ 2,012</u>

**NOTE 6 - DEFINED CONTRIBUTION AND MONEY PURCHASE PLAN:**

The Cooperative maintains a defined contribution plan, specifically referred to as the Cooperative Fringe Benefit Plan (the Plan). The Plan is a non-trustee plan and the Cooperative does not administer the Plan assets. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Michigan state statute assigns the authority to establish and amend benefit provisions to the Cooperative Board of Trustees. All Cooperative employees employed for at least 32 hours per week on a regular basis are eligible to participate. Eligible employees may begin participating in the Plan after a six month probationary period. After the probationary period, the employee(s) will receive pro-rated fringe benefits retroactive to hire date. The Cooperative will contribute up to 32% of the employee's salary to the Plan. This may be health, life, disability, tax shelter annuity (it must be a 403(B) qualified plan), or another similar "fringe" program. All of the Cooperative's contributions for each participating employee (and interest allocated to the employee's account) are fully vested on the day the employee is eligible to participate in the Plan.

The Cooperative made required contributions of \$62,214 during the fiscal year ended September 30, 2005.

**NOTE 7 - RISK MANAGEMENT:**

The Cooperative is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Cooperative has purchased commercial insurance for each of these claims and is neither self-insured, nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

## **SUPPLEMENTARY INFORMATION**

**Southwest Michigan Library Cooperative**  
**BUDGETARY COMPARISON SCHEDULE - Operating Fund**  
Year ended September 30, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>				
State grants	\$ 266,263	\$ 266,263	\$ 265,725	\$ (538)
Contributions from local units	143,979	143,312	143,312	-
Charges for services	72,750	71,865	104,616	32,751
Interest	4,000	1,650	1,457	(193)
Other	-	647	-	(647)
Total revenues	<u>486,992</u>	<u>483,737</u>	<u>515,110</u>	<u>31,373</u>
<b>EXPENDITURES</b>				
Recreation and culture:				
Headquarters	195,984	209,241	269,052	(59,811)
Computer service/interlibrary loan	243,603	229,586	213,632	15,954
Delivery services	53,410	56,230	55,547	683
Reed Act	-	-	373	(373)
Total recreation and culture	<u>492,997</u>	<u>495,057</u>	<u>538,604</u>	<u>(43,547)</u>
Capital outlay	<u>4,057</u>	<u>7,540</u>	<u>5,956</u>	<u>1,584</u>
Debt service:				
Principal	<u>15,948</u>	<u>15,948</u>	<u>15,658</u>	<u>290</u>
Interest	<u>-</u>	<u>-</u>	<u>1,734</u>	<u>(1,734)</u>
Total expenditures	<u>513,002</u>	<u>518,545</u>	<u>561,952</u>	<u>(43,407)</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<u>(26,010)</u>	<u>(34,808)</u>	<u>(46,842)</u>	<u>(12,034)</u>
<b>FUND BALANCES - BEGINNING</b>	<u>199,814</u>	<u>199,814</u>	<u>199,814</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 173,804</u>	<u>\$ 165,006</u>	<u>\$ 152,972</u>	<u>\$ (12,034)</u>